

NEWS RELEASE

FOR RELEASE: October 18, 2010

Lines Murphy & Company, P.L.C., of Osage today released an audit report on the City of Osage, Iowa.

The City's receipts totaled \$6,204,638 for the year ended June 30, 2010, a 2.6 percent increase from prior year. The receipts included \$992,548 from charges for service, \$862,795 in property tax, \$737,768 from intergovernmental, \$2,010,000 from note proceeds, and \$1,601,527 from other general receipts.

Disbursements for the year totaled \$6,282,553, a 32.3 percent decrease from the prior year, and included \$2,258,179 for capital projects, \$2,379,391 in operating expenses, \$847,730 for debt service, and \$797,253 from business type activities.

The Majority of the change is due to capital projects expenditures spent in fiscal year 2009 compared to fiscal year 2010.

A copy of the report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at:  
<http://auditor.iowa.gov/reports/reports.htm>.

**CITY OF OSAGE**

**INDEPENDENT AUDITORS' REPORTS  
PRIMARY GOVERNMENT FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2010**



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## City of Osage

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Steven Cooper	Mayor	Jan 2012
Rick Bodensteiner	Council Member	Jan 2010
Ken Boehmer	Council Member	Jan 2010
Jim Werner	Council Member	Jan 2010
Brian Adams	Council Member	Jan 2012
Kurt Elliott	Council Member	Jan 2012
Allan Smalley	Council Member	Jan 2012
Cathy Penney	Clerk	Jan 2010
Bev Miller	Treasurer	Jan 2010
Richard Gross	Attorney	Jan 2010
Jerry Dunlay	Director of Public Works	Jan 2010
John Michels	Park Commissioner	Jan 2010
John LaCoste	Park Commissioner	Jan 2012
Don Fox	Park Commissioner	Jan 2014
Laurie Boehmer	Library Trustee	Jul 2014
Lynn Haakenson	Library Trustee	Jul 2014
Mary Ann Carmody	Library Trustee	Jul 2011
Brian Jones	Library Trustee	Jul 2011
Kevin Kolbet	Library Trustee	Jul 2012
Herb Wright	Library Trustee	Jul 2012
Johanna Anderson	Library Trustee	Jul 2013
<b>(After January 2010)</b>		
Steven Cooper	Mayor	Jan 2012
Rick Bodensteiner	Council Member	Jan 2014
Ken Boehmer	Council Member	Jan 2014
Larry Mork	Council Member	Jan 2014
Brian Adams	Council Member	Jan 2012
Kurt Elliott*	Council Member	Jan 2012
Allan Smalley	Council Member	Jan 2012
Cathy Penney	Clerk	Jan 2012
Bev Miller	Treasurer	Jan 2012
Richard Gross	Attorney	Jan 2012
Jerry Dunlay	Director of Public Works	Jan 2012
John Michels	Park Commissioner	Jan 2010
John LaCoste	Park Commissioner	Jan 2012
Don Fox	Park Commissioner	Jan 2014
Vacant	Library Trustee	Jul 2014
Lynn Haakenson	Library Trustee	Jul 2014
Mary Ann Carmody	Library Trustee	Jul 2011
Brian Jones	Library Trustee	Jul 2011
Kevin Kolbet***	Library Trustee	Jul 2012
Herb Wright**	Library Trustee	Jul 2012
Johanna Anderson	Library Trustee	Jul 2013

\* Kurt Elliott Resigned and Carolyn Johnson appointed June 21, 2010

\*\* Herb Wright resigned and Pam Masmar appointed April 19, 2010

\*\*\* Kevin Kolbet resigned and Herb Wright appointed April 13, 2010 (Rural Representative)



Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the primary government financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Osage's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Osage, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Osage as of June 30, 2010, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1. In accordance with accounting principles generally accepted in the United States of America, Osage Municipal Utilities has issued separate financial statements for which other auditors have issued their report dated July 12, 2010.

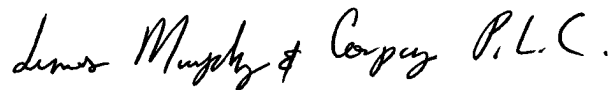
In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.



In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2010 on our consideration of the City of Osage's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 24 through 26 are not required parts of the primary government financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Osage's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.



Lines Murphy & Company, P. L. C.  
Certified Public Accountants  
Osage, Iowa  
October 1, 2010

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Osage provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2010 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 23.3%, or approximately \$978,000, from fiscal 2009 to fiscal 2010. Capital Grants decreased approximately \$916,000, Grants and contributions not restricted to specific purposes increased approximately \$202,000 and note proceeds increased \$2,010,000.
- Disbursements of the City's governmental activities decreased 27.8%, or approximately \$2,034,000, in fiscal 2010 from fiscal 2009. Community and economic development and capital projects disbursements decreased approximately \$839,000 and \$1,516,000, respectively.
- The City's total cash basis net assets decreased 1.6%, or approximately \$78,000 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased approximately \$85,000 and the assets of the business type activities increased approximately \$7,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the primary government financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and solid waste collections. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

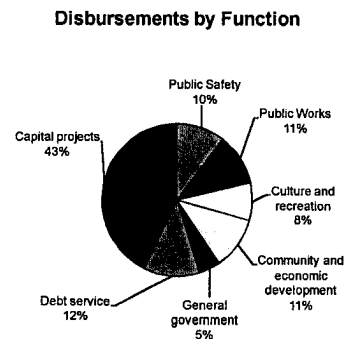
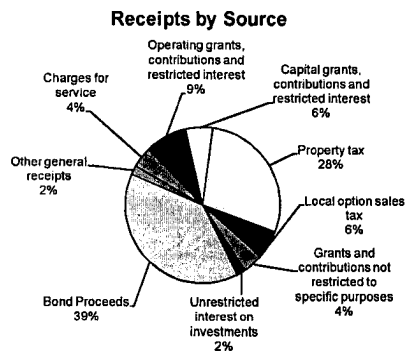
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and solid waste funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$3.533 million to \$3.448 million. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 225	\$ 400
Operating grants, contributions and restricted interest	455	450
Capital grants, contributions and restricted interest	290	1,206
General receipts:		
Property tax	1,479	1,464
Local option sales tax	304	271
Grants and contributions not restricted to specific purposes	218	16
Unrestricted interest on investments	93	156
Note proceeds	2,010	-
Other general receipts	99	232
Total receipts	<u>5,173</u>	<u>4,195</u>
<b>Disbursements:</b>		
Public safety	542	540
Public works	579	470
Culture and recreation	426	418
Community and economic development	586	1,425
General government	246	224
Debt service	633	453
Capital projects	2,258	3,774
Total disbursements	<u>5,270</u>	<u>7,304</u>
Change in cash basis net assets before transfers	(97)	(3,109)
Transfers, net	12	14
Change in cash basis net assets	(85)	(3,095)
Cash basis net assets beginning of year	<u>3,533</u>	<u>6,628</u>
Cash basis net assets end of year	<u>\$ 3,448</u>	<u>\$ 3,533</u>



The City's total receipts for governmental activities increased 23.3%, or approximately \$978,000. The total cost of all programs and services decreased approximately \$2,034,000, or 27.8%. The significant increase in receipts was primarily the result of note proceeds received to fund the Public Safety Building in fiscal year 2010. The significant decrease in costs was due to expenditures for the 2009 Street Project and the Pool Project (CRC) incurred in fiscal year 2009.

The cost of all governmental activities this year was \$5.270 million compared to \$7.304 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$4.300 million because some of the cost was paid by those who directly benefited from the programs (\$226,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$745,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in 2010 from approximately \$2,056,000 to approximately \$971,000. The City paid for the remaining "public benefit" portion of governmental activities (\$4,300,000) with taxes (some of which could only be used for certain programs), bond proceeds in fiscal year 2010 and other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 382	\$ 370
Sewer	474	489
Solid waste	136	136
Operating grants, contributions and restricted interest	6	5
General receipts:		
Unrestricted interest on investments	34	53
Bond Proceeds	-	797
Total receipts	<u>1,032</u>	<u>1,850</u>
Disbursements:		
Water	363	303
Sewer	516	1,536
Solid waste	133	130
Total disbursements	<u>1,012</u>	<u>1,969</u>
Change in cash basis net assets before transfers	20	(119)
Transfers, net	<u>(12)</u>	<u>(14)</u>
Change in cash basis net assets	8	(133)
Cash basis net assets beginning of year	<u>1,440</u>	<u>1,573</u>
Cash basis net assets end of year	<u>\$ 1,448</u>	<u>\$ 1,440</u>

Total business type activities receipts for the fiscal year were approximately \$1.032 million compared to approximately \$1.850 million last year. The cash balance increased by approximately \$8,000 from the prior year. Total disbursements for the fiscal year decreased by 48.6% to a total of approximately \$1,012,000; mostly due to calling of Sewer bonds in prior year. Revenue also decreased by \$818,000 mostly due to bond issuance in prior year.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

- The Capital Project, 2008 Street Project cash balance decreased \$54,867 from the prior year to \$669,507. The decrease is due to expenditures related to the 2008 Street Project debt service payments.
- The Capital Project, Pool Project (CRC) cash balance decreased \$197,254 from the prior year to \$12,562. This decrease was due to expenditures towards the pool project of approximately \$198,000.
- The Capital Project, 2010 Street Project cash balance increased \$106,142 from the prior year to \$106,142. The increase was due to monies set aside for the new project.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$37,757 to \$832,673, due primarily to increase in the base water rate.
- The Sewer Fund cash balance decreased \$24,119 to \$502,654, primarily due to a decrease of industrial usage and installation of sewer mains.
- The Solid Waste Fund cash balance decreased \$6,089 to \$112,356.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 17, 2010 and resulted in a decrease in operating disbursements related to expenditures in Culture and Recreation for projects coming in under budget and an adjustment to Capital Project expenditures based on completion of work.

The City's receipts were \$144,388 less than budgeted. This was primarily due to anticipated donations for Public Safety Building that were not received.

Total disbursements were \$924,043 less than the amended budget. This was primarily due to projects coming in under budget and delays in capital project work.

## DEBT ADMINISTRATION

At June 30, 2010, the City had approximately \$6,773,000 in bonds and other long-term debt, compared to approximately \$5,312,000 last year, as shown below.

Outstanding Debt at Year-End		
(Expressed in Thousands)		
	June 30,	
	2010	2009
General obligation notes	\$ 3,470	\$ 1,665
Revenue bonds	3,303	3,647
Total	<u>\$ 6,773</u>	<u>\$ 5,312</u>

Debt increased as a result of note proceeds received to fund the Public Safety Building.

The City carries a general obligation bond rating of A assigned by Standard & Poor to the City's debt in 2009. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,470,000 is significantly below its constitutional debt limit of \$7.6 million.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City of Osage's elected and appointed officials consider many factors when setting the fiscal year 2011 budget, tax rates and fees. Property taxes and service fees provide 63% of the revenues necessary to provide services to the citizens of Osage.

The City property tax levy rate for fiscal year 2011 will be reduced to 12.8535 from 12.9405. The rate decrease coupled with property valuation increases will result in an additional \$48,267 in tax revenue. The additional tax revenues will all be used for General Fund activities. The property tax asking in FY 2011 and each of the past 3 years remains less than the preceding 7 years. Tax Increment Financing Districts continue to produce revenue to fund economic development activities and debt service payments for Pool/CRC project and Public Safety Building. Local Option Tax revenues are used to reduce property tax asking and provide funding for street improvements. Hotel/Motel taxes provide supplemental funds for Recreation, Tourism, and other community enhancements. Water & Sewer usage rates will be adjusted to reflect 2009 CPI increase of 2.7%.

Citizens have witnessed multiple Capital Projects in the community over the past several years. All phases of the Cedar River Complex project are complete and are well used by members of the community. The Police & Fire departments will be operating in the new Public Safety Building early this fall. Street construction and resurfacing work is also evident as you travel the town. FY 2011 budget reflects the final payments for Public Safety Building and 2010 Street Improvement Project. No new capital projects are planned for 2010-11.

The residents of Osage continue to be impacted by state, national and international economic issues. The Osage Community School Board grappled with tough financial decisions in the last budget cycle and will continue to be challenged by declining enrollment and reduced funding. Local employment remains fairly stable, home foreclosures are few in number and existing homes are being purchased. Several local contractors are participating in Community Development Block Grant Single Family New Construction Program and 9 new residences are or will soon be under construction. In addition, 5 duplexes have been started and some units will be occupied early this winter.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cathy Penney, City Clerk, 806 Main Street, City of Osage, Iowa.

**City of Osage**



City of Osage

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 541,641	16,752	10,712	1,484
Public works	579,328	115,200	321,141	-
Culture and recreation	426,520	36,680	69,595	-
Community and economic development	585,756	750	-	288,797
General government	246,146	56,137	-	-
Debt service	633,140	-	53,492	-
Capital projects	2,258,179	-	-	-
Total governmental activities	5,270,710	225,519	454,940	290,281
Business type activities:				
Water	362,612	382,371	-	-
Sewer	516,229	474,070	5,919	-
Solid waste	133,002	136,107	-	-
Total business type activities	1,011,843	992,548	5,919	-
Total	\$ 6,282,553	1,218,067	460,859	290,281
<b>General Receipts:</b>				
Property tax and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Unrestricted interest on investments				
Bond Proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(512,693)	-	(512,693)
(142,987)	-	(142,987)
(320,245)	-	(320,245)
(296,209)	-	(296,209)
(190,009)	-	(190,009)
(579,648)	-	(579,648)
(2,258,179)	-	(2,258,179)
(4,299,970)	-	(4,299,970)
-	19,759	19,759
-	(36,240)	(36,240)
-	3,105	3,105
-	(13,376)	(13,376)
(4,299,970)	(13,376)	(4,313,346)
932,688	-	932,688
546,172	-	546,172
-	-	-
303,828	-	303,828
218,052	-	218,052
92,847	32,925	125,772
2,010,000	-	2,010,000
98,919	-	98,919
12,000	(12,000)	-
4,214,506	20,925	4,235,431
(85,464)	7,549	(77,915)
3,533,171	1,440,134	4,973,305
\$ 3,447,707	1,447,683	4,895,390
\$ 283,911	-	283,911
364,045	-	364,045
131,605	17,274	148,879
1,035,187	-	1,035,187
1,632,959	1,430,409	3,063,368
\$ 3,447,707	1,447,683	4,895,390

City of Osage

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2010

		Special Revenue		
	General	Road Use Tax	Tax Increment Financing	Debt Service
Receipts:				
Property tax	\$ 602,519	-	-	-
Tax increment financing	-	-	546,172	-
Other city tax	37,763	-	-	-
Licenses and permits	5,989	-	-	-
Use of money and property	32,892	-	6,075	2,329
Intergovernmental	416,174	306,020	-	-
Charges for service	43,015	-	-	-
Special assessments	24,447	-	-	3,225
Miscellaneous	191,414	-	-	85,432
Total receipts	1,354,213	306,020	552,247	90,986
Disbursements:				
Operating:				
Public safety	540,999	-	-	-
Public works	226,685	337,522	-	-
Culture and recreation	417,899	-	2,930	-
Community and economic development	347,503	-	180,579	-
General government	245,642	-	-	-
Debt service	-	-	269,000	364,140
Capital projects	-	-	-	-
Total disbursements	1,778,728	337,522	452,509	364,140
Excess (deficiency) of receipts over (under) disbursements	(424,515)	(31,502)	99,738	(273,154)
Other financing sources (uses):				
Note Proceeds	-	-	-	-
Operating transfers in	404,069	-	-	310,657
Operating transfers out	(6,400)	-	(101,695)	-
Total other financing sources (uses)	397,669	-	(101,695)	310,657
Net change in cash balances	(26,846)	(31,502)	(1,957)	37,503
Cash balances beginning of year	517,199	315,413	366,002	94,102
Cash balances end of year	\$ 490,353	283,911	364,045	131,605
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	-	-	131,605
Unreserved:				
General fund	490,353	-	-	-
Special revenue funds	-	283,911	364,045	-
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
Total cash basis fund balances	\$ 490,353	283,911	364,045	131,605

See notes to financial statements.

Exhibit B

Capital Projects	Nonmajor	Total
-	260,276	862,795
-	-	546,172
-	335,782	373,545
-	-	5,989
42,055	24,281	107,632
-	15,574	737,768
-	12,754	55,769
108,364	-	136,036
-	60,694	337,540
150,419	709,361	3,163,246
-	642	541,641
-	15,121	579,328
-	5,691	426,520
-	57,674	585,756
-	504	246,146
-	-	633,140
2,258,179	-	2,258,179
2,258,179	79,632	5,270,710
(2,107,760)	629,729	(2,107,464)
2,010,000	-	2,010,000
173,304	6,400	894,430
(169,587)	(604,748)	(882,430)
2,013,717	(598,348)	2,022,000
(94,043)	31,381	(85,464)
1,236,649	1,003,806	3,533,171
1,142,606	1,035,187	3,447,707
-	-	131,605
-	-	490,353
-	934,062	1,582,018
1,142,606	-	1,142,606
-	101,125	101,125
1,142,606	1,035,187	3,447,707

**City of Osage**

## City of Osage

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2010

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 382,371	\$ 474,070	\$ 136,107	\$ 992,548
Operating disbursements:				
Business type activities	362,612	301,639	133,002	797,253
Excess (deficiency) of operating receipts over (under) operating disbursements	19,759	172,431	3,105	195,295
Non-operating receipts (disbursements):				
Interest on investments	17,998	12,121	2,806	32,925
Miscellaneous	-	5,919	-	5,919
Debt Service	-	(214,590)	-	(214,590)
Net non-operating receipts (disbursements)	17,998	(196,550)	2,806	(175,746)
Excess (deficiency) of receipts over (under) disbursements	37,757	(24,119)	5,911	19,549
Other financing sources (uses):				
Bond Proceeds	-	-	-	-
Operating transfers out	-	-	(12,000)	(12,000)
Total other financings sources (uses)	-	-	(12,000)	(12,000)
Net change in cash balances	37,757	(24,119)	(6,089)	7,549
Cash balances beginning of year	794,916	526,773	118,445	1,440,134
Cash balances end of year	\$ 832,673	\$ 502,654	\$ 112,356	\$ 1,447,683
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	\$ 17,274	\$ -	\$ 17,274
Unreserved	832,673	485,380	112,356	1,430,409
Total cash basis fund balances	\$ 832,673	\$ 502,654	\$ 112,356	\$ 1,447,683

See notes to financial statements.

**City of Osage**

City of Osage  
Notes to Financial Statements  
June 30, 2010

**(1) Summary of Significant Accounting Policies**

The City of Osage is a political subdivision of the State of Iowa located in Mitchell County. It was first incorporated in 1871 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Osage has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Osage (the primary government) and exclude the City's component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its respective administrative office.

**Component Unit**

Osage Municipal Utilities is a component unit of the City of Osage and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. A five-member board, appointed by the Mayor, governs the Utilities. The Utilities and its operating budget are subject to the approval of the City Council.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no known ongoing financial interest or responsibility by the participating governments. City officials are members of the following



boards and commissions: Mitchell County Assessor's Conference Board, Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw County Solid Waste Management Agency, Mitchell County Joint E911 Service Board, and Cedar River Recreation and Fine Arts Complex.

**B. Basis of Presentation**

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for projects related to the construction of capital assets including the 2008 Street Project and CRC pool project.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Solid Waste Fund is used to account for garbage collection services to the citizens of Osage.

C. Measurement Focus and Basis of Accounting

The City of Osage maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City of Osage funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the debt service function.

## (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. treasury securities	<u>\$10,288</u>	<u>\$14,247</u>	<u>August 2019</u>

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

## (3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	290,000	160,775	357,000	126,164	647,000	286,939
2012	290,000	151,258	372,000	114,347	662,000	265,605
2013	265,000	141,300	384,000	101,183	649,000	242,483
2014	215,000	131,420	185,000	87,600	400,000	219,020
2015	220,000	123,597	190,000	80,200	410,000	203,797
2016-2020	1,075,000	471,102	1,065,000	281,200	2,140,000	752,302
2021-2025	575,000	271,013	750,000	60,800	1,325,000	331,813
2026-2029	540,000	85,620	-	-	540,000	85,620
Total	<u>3,470,000</u>	<u>1,536,085</u>	<u>3,303,000</u>	<u>851,494</u>	<u>6,773,000</u>	<u>2,387,579</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.

- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due. This provision was met as of June 30, 2010.

**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.55% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$67,874.43, \$64,670 and \$61,338, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory termination payments payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$66,507
Compensatory	<u>4,020</u>
Total	<u>\$70,527</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. However, sick leave time is canceled if an employee leaves his or her employment with the City.

**(6) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses in the form of a traditional plan and a high deductible plan each costing the City the same amount. There are 17 active and 1 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$488 for single and \$1,220 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$215,296 and plan members eligible for benefits contributed \$12,418 to the plan.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 242,931
	Local Option Sales Tax	106,899
	Parks and Recreation	24,202
	Emergency Levy	18,036
	Permanent:	
	Ingeborg Hallingby Memorial	1
	Enterprise:	
	Solid Waste	12,000
		<u>\$ 404,069</u>
Special Revenue:		
Jaws of Life	General	<u>\$ 200</u>
Capital Improvement Revolving	General	<u>\$ 6,200</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 80,305
	Local Option Sales Tax	60,765
	Capital Projects	169,587
		<u>\$ 310,657</u>
Capital Projects	Special Revenue:	
	Local Option	\$ 151,914
	Tax Increment Financing	21,390
		<u>\$ 173,304</u>
Total		<u>\$ 894,430</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(8) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$4,590 during the fiscal year ended June 30, 2010.

**(9) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Component Unit**

Osage Municipal Utilities is a component unit of the City of Osage. It is not included in this report. Following are the transactions between the City and the Utilities:

City paid to Utilities:

Utilities	\$ 120,975
Billing services (bookkeeping)	18,660
Phone and internet	6,888
Miscellaneous	150
Total	<u>\$ 146,673</u>

Utilities paid to City:

Collections for water, sewer, and garbage	\$966,200
Donations in lieu of taxes	78,771
Bond principal and interest	53,492
Cable franchise fee	26,344
Miscellaneous	2,532
Total	<u>\$1,127,339</u>

**(11) Floyd-Mitchell-Chickasaw Solid Waste Management Agency**

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected or appointed representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Osage may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2010, the City of Osage paid Jendro Sanitation \$125,807 for City wide pickup. The sanitation company is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

## **(12) Economic Development**

The City provided funds to Osage Manufacturing, Inc. (OMI), under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with no interest, payable at \$741 per month. The balance owed to the City at June 30, 2010 by OMI was \$99,999. The City also provided funds to A to Z Drying, Inc. under the provisions of Chapter 15A of the Code of Iowa in the form of a loan with 1% interest payable at \$1,401 per month. The balance owed to the City at June 30, 2010 by A to Z Drying, Inc. was \$64,550.

Under the Main Street Loan Program, the City provided funds to small businesses along Main Street during fiscal years 2003-2006, in accordance with the provisions of Chapter 15A of the Code of Iowa in the form of eighteen loans with no interest. The balance of the loans at June 30, 2010 is \$14,029. Payments are to be made on January 10<sup>th</sup> for the first four years in the amount of one tenth of the original issue. A balloon payment for the remaining balance is due on January 10<sup>th</sup> of the fifth year.

The Commercial Loan Program expanded on the Main Street Loan Program in 2006 to include small business off of Main Street and outside the Tax Increment Financing District under provisions of Chapter 15A of the Code of Iowa. The Commercial Loan Program is currently made up of twenty-one loans with no interest. The balance of these loans at June 30, 2010 was \$163,217 and payments are handled in the same manner as the Main Street Loans mentioned in the preceding paragraph.

## **(13) Housing Revenue Bonds**

The City has previously issued \$1,600,000 of housing revenue bonds under the provisions of Chapter 419 of the Code of Iowa of which \$990,664 is outstanding at June 30, 2010. The bonds and related interest are payable solely from the rents payable by tenants of the property constructed, and the bond principal and interest do not constitute liabilities of the City. The bonds were issued for the benefit of Martin Luther Homes, Inc., Evergreen Senior Housing.

## **(14) Leases**

The City leases tower space and property to U.S. Cellular, Osage Municipal Utilities and Verizon Wireless under three and five-year renewable operating leases. The City receives monthly payments of \$113, \$215 and \$576 from U.S. Cellular, Osage Municipal Utilities and Verizon Wireless, respectively. Under the terms of the current lease agreements, annual payments for each of the following five fiscal years are as follows:

2011	\$10,844
2012	10,444
2013	2,737
2014	2,737
2015	686

The Osage Public Library leases approximately 1,000 square feet of space to North Iowa Area Community College (NIACC) under a two-year renewable lease. The City of Osage received a payment of \$4,000 in fiscal 2010.

Total rent income from leases for fiscal year ending June 30, 2010 was \$14,786.

Also, the City leases the parking lot property from Mayer's Digging Company at the soccer field. The City pays \$1 per year for the property renewable annually.

**(15) Commitments**

As of June 30, 2010, the City had the following commitments with respect to the following projects:

	<u>Remaining Commitment</u>	<u>Expected Date of Completion</u>
Public Safety Building	\$ 287,026	July 2010
2010 Street Improvements	349,390	September 2010
Total	<u>\$ 636,416</u>	

**(16) USDA Loan Guarantee**

On June 9, 2000, the Osage Community Daycare received \$200,000 in note proceeds under United States Department of Agriculture (USDA) Notes. The proceeds were received from two separate \$100,000 notes. The notes are not a general obligation of the City but are payable solely and only from pledges of private funds to be donated to the Osage Community Daycare. The notes bear interest at 5.00% and 4.75% per year, respectively. Interest and principal is paid monthly beginning on July 9, 2002 and each month thereafter until maturity. Monthly interest and principal payments of \$491 and \$475, respectively, are due until maturity on May 9, 2040. The City has guaranteed to pay from its General Fund, up to \$200,000 of the principal amount if revenues from the Osage Community Daycare are not sufficient to make such payment. The Osage Community Daycare was current on their payments as of June 30, 2010.

**(17) Partial Self Funded Insurance**

The City will pay up to \$500 for a single and up to \$1,000 for a family for each employee's deductible on his or her health insurance plan. For the period ending June 30, 2010 the City had nine employees on the partial self funded insurance plan with a maximum liability of \$8,500 and expenditures of \$2,075 leaving a remaining liability of \$6,425 thru the end of December 2010.

**(18) Subsequent Events**

On July 6, 2010 the Council approved calling 2002 Street and Telecom General Obligation Notes early.

On September 1, 2010 the City issued Urban Renewal Revenue Annual Appropriation Bonds Series, 2010A for \$3,770,000 and Series 2010B for \$375,000.

On September 3, 2010 the City refunded Urban Renewal Revenue Annual Appropriation Capital loan Notes, Series 2009n with a portion of the proceeds obtained on September 1, 2010.



City of Osage

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 862,795	-	-
Tax increment financing	546,172	-	-
Other city tax	373,545	-	-
Licenses and permits	5,989	-	-
Use of money and property	107,632	32,925	2
Intergovernmental	737,768	-	-
Charges for service	55,769	992,548	-
Special assessments	136,036	-	-
Miscellaneous	337,540	5,919	4,425
Total receipts	<u>3,163,246</u>	<u>1,031,392</u>	<u>4,427</u>
Disbursements:			
Public safety	541,641	-	-
Public works	579,328	-	-
Culture and recreation	426,520	-	-
Community and economic development	585,756	-	-
General government	246,146	-	-
Debt service	633,140	-	-
Capital projects	2,258,179	-	-
Business type activities	-	1,011,843	-
Total disbursements	<u>5,270,710</u>	<u>1,011,843</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(2,107,464)	19,549	4,427
Other financing sources (uses), net	<u>2,022,000</u>	<u>(12,000)</u>	<u>(1)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(85,464)	7,549	4,426
Balances beginning of year	<u>3,533,171</u>	<u>1,440,134</u>	<u>96,699</u>
Balances end of year	<u>\$ 3,447,707</u>	<u>1,447,683</u>	<u>101,125</u>

See accompanying independent auditors' report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
862,795	864,318	864,318	(1,523)
546,172	540,000	550,000	(3,828)
373,545	316,241	380,089	(6,544)
5,989	6,100	6,100	(111)
140,555	161,980	138,780	1,775
737,768	831,450	734,900	2,868
1,048,317	1,103,598	1,016,098	32,219
136,036	66,150	135,900	136
339,034	442,034	508,414	(169,380)
<u>4,190,211</u>	<u>4,331,871</u>	<u>4,334,599</u>	<u>(144,388)</u>
541,641	617,063	623,463	81,822
579,328	471,707	628,828	49,500
426,520	970,535	646,535	220,015
585,756	173,871	739,871	154,115
246,146	232,990	262,140	15,994
633,140	711,175	365,146	(267,994)
2,258,179	3,280,000	2,790,000	531,821
1,011,843	1,118,613	1,150,613	138,770
<u>6,282,553</u>	<u>7,575,954</u>	<u>7,206,596</u>	<u>924,043</u>
(2,092,342)	(3,244,083)	(2,871,997)	779,655
<u>2,010,001</u>	<u>25,700</u>	<u>2,035,700</u>	<u>(25,699)</u>
(82,341)	(3,218,383)	(836,297)	753,956
<u>4,876,606</u>	<u>7,728,337</u>	<u>4,876,606</u>	<u>-</u>
<u>4,794,265</u>	<u>4,509,954</u>	<u>4,040,309</u>	<u>753,956</u>

### **Required Supplementary Information**

City of Osage

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$369,358 and increased budgeted receipts by \$2,728. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the debt service function.

### **Other Supplementary Information**

City of Osage

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2010

	Local					Special
	Option	Forfeited	Employee	Emergency		Jaws
	Sales	Property	Benefits	Levy	Hotel/Motel	of
	Tax					Life
Receipts:						
Property tax	\$ -	-	242,288	17,988	-	-
Other city tax	303,828	-	594	44	31,316	-
Use of money and property	4,249	102	-	-	508	165
Intergovernmental	-	-	49	4	-	-
Charges for service	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-
Miscellaneous	-	-	-	-	1,813	400
Total receipts	<u>308,077</u>	<u>102</u>	<u>242,931</u>	<u>18,036</u>	<u>33,637</u>	<u>565</u>
Disbursements:						
Operating:						
Public safety	-	-	-	-	-	642
Public works	-	-	-	-	-	-
Culture & recreation	-	-	-	-	5,691	-
Community and economic development	-	-	-	-	12,960	-
General government	-	-	-	-	504	-
Capital projects	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,155</u>	<u>642</u>
Excess (deficiency) of receipts over (under) disbursements	<u>308,077</u>	<u>102</u>	<u>242,931</u>	<u>18,036</u>	<u>14,482</u>	<u>(77)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	200
Operating transfers out	(319,578)	-	(242,931)	(18,036)	-	-
Total other financing sources (uses)	<u>(319,578)</u>	<u>-</u>	<u>(242,931)</u>	<u>(18,036)</u>	<u>-</u>	<u>200</u>
Net change in cash balances	(11,501)	102	-	-	14,482	123
Cash balances beginning of year	181,544	5,297	-	-	22,343	8,287
Cash balances end of year	<u>\$ 170,043</u>	<u>5,399</u>	<u>-</u>	<u>-</u>	<u>36,825</u>	<u>8,410</u>
<b>Cash Basis Fund Balances</b>						
Unreserved:						
Special revenue funds	\$ 170,043	5,399	-	-	36,825	8,410
Permanent funds	-	-	-	-	-	-
Total cash basis fund balances	<u>\$ 170,043</u>	<u>5,399</u>	<u>-</u>	<u>-</u>	<u>36,825</u>	<u>8,410</u>

See accompanying independent auditors' report.

	Special				
	Parks and Recreation	Commercial Loan	Library Building Equipment Materials	Main Street Loan	Capital Improvement Revolving
Receipts:					
Property tax	\$ -	-	-	-	-
Other city tax	-	-	-	-	-
Use of money and property	914	1,220	7,729	42	9,155
Intergovernmental	-	-	-	-	-
Charges for service	10,954	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	15,604	24,817	-	13,589	-
Total receipts	<u>27,472</u>	<u>26,037</u>	<u>7,729</u>	<u>13,631</u>	<u>9,155</u>
Disbursements:					
Operating:					
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture & recreation	-	-	-	-	-
Community and economic development	-	44,714	-	-	-
General government	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>-</u>	<u>44,714</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>27,472</u>	<u>(18,677)</u>	<u>7,729</u>	<u>13,631</u>	<u>9,155</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	-	6,200
Operating transfers out	(24,202)	-	-	-	-
Total other financing sources (uses)	<u>(24,202)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,200</u>
Net change in cash balances	3,270	(18,677)	7,729	13,631	15,355
Cash balances beginning of year	<u>50,765</u>	<u>82,452</u>	<u>160,775</u>	<u>-</u>	<u>385,916</u>
Cash balances end of year	<u>\$ 54,035</u>	<u>63,775</u>	<u>168,504</u>	<u>13,631</u>	<u>401,271</u>
<b>Cash Basis Fund Balances</b>					
Unreserved:					
Special revenue funds	\$ 54,035	63,775	168,504	13,631	401,271
Permanent funds	-	-	-	-	-
Total cash basis fund balances	<u>\$ 54,035</u>	<u>63,775</u>	<u>168,504</u>	<u>13,631</u>	<u>401,271</u>

## Schedule 1

Revenue		Permanent		
Police Special Project /DARE	I-JOBS	Cemetery Perpetual Care	Ingeborg Hallingby Memorial	Total
-	-	-	-	260,276
-	-	-	-	335,782
195	-	-	2	24,281
400	15,121	-	-	15,574
-	-	1,800	-	12,754
-	-	-	-	-
1,846	-	2,625	-	60,694
2,441	15,121	4,425	2	709,361
-	-	-	-	642
-	15,121	-	-	15,121
-	-	-	-	5,691
-	-	-	-	57,674
-	-	-	-	504
-	-	-	-	-
-	15,121	-	-	79,632
2,441	-	4,425	2	629,729
-	-	-	-	6,400
-	-	-	(1)	(604,748)
-	-	-	(1)	(598,348)
2,441	-	4,425	1	31,381
9,728	-	96,399	300	1,003,806
12,169	-	100,824	301	1,035,187
12,169	-	-	-	934,062
-	-	100,824	301	101,125
12,169	-	100,824	301	1,035,187



City of Osage  
Schedule of Indebtedness  
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
2002 Street Improvement and Telecom	07/01/02	2.35-4.40%	\$ 630,000
2003 Urban Renewal	12/09/03	3.95%	140,000
2008 Street Improvement	06/01/08	2.75-4.00%	1,345,000
2009 Public Safety Building	07/01/09	2.80-6.20%	2,010,000
Total			
Revenue bonds:			
2008 Swimming Pool and Urban Renewal	06/01/08	4.00%	3,000,000
2009 Sewer Revenue Refunding Capital Loan Notes	04/01/09	2.75-3.15%	\$ 797,000
Total			

See accompanying independent auditors' report.

Schedule 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
290,000	-	70,000	220,000	12,270	-
30,000	-	20,000	10,000	987	-
1,345,000	-	115,000	1,230,000	47,985	-
-	2,010,000	-	2,010,000	97,460	-
<u>1,665,000</u>	<u>2,010,000</u>	<u>205,000</u>	<u>3,470,000</u>	<u>158,702</u>	<u>-</u>
2,850,000	-	155,000	2,695,000	114,000	-
797,000	-	189,000	608,000	25,590	-
<u>3,647,000</u>	<u>-</u>	<u>344,000</u>	<u>3,303,000</u>	<u>139,590</u>	<u>-</u>

City of Osage  
Bond and Note Maturities  
June 30, 2010

General Obligation Notes						
Year Ending June 30,	2002 Street Improvement and Telecom		2003 Urban Renewal		2008 Street Improvement	
	Issued Jul 1, 2002		Issued Dec 9, 2003		Issued Jun 1, 2008	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	4.20	\$ 80,000	3.95	\$ 10,000	3.10	\$ 120,000
2012	4.30	85,000	-	-	3.25	125,000
2013	4.40	55,000	-	-	3.35	125,000
2014	-	-	-	-	3.50	130,000
2015	-	-	-	-	3.65	135,000
2016	-	-	-	-	3.80	140,000
2017	-	-	-	-	3.90	145,000
2018	-	-	-	-	4.00	150,000
2019	-	-	-	-	4.00	160,000
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
Total		<u>\$ 220,000</u>		<u>\$ 10,000</u>		<u>\$ 1,230,000</u>

Revenue Bonds						
Year Ending June 30,	2009 Sewer Revenue			2008 Swimming Pool		
	Refunding Capital Loan Notes			Urban Renewal Revenue		
	Issued Apr 3, 2009			Capital Loan Notes		
	Interest			Issued Jun 1, 2008		
	Rates	Amount		Rates	Amount	Total
2011	2.75	\$ 197,000		4.00	\$ 160,000	\$ 357,000
2012	3.15	202,000		4.00	170,000	372,000
2013	3.15	209,000		4.00	175,000	384,000
				4.00	185,000	185,000
				4.00	190,000	190,000
				4.00	195,000	195,000
				4.00	205,000	205,000
				4.00	215,000	215,000
				4.00	220,000	220,000
				4.00	230,000	230,000
				4.00	240,000	240,000
				4.00	250,000	250,000
				4.00	260,000	260,000
Total		<u>\$ 608,000</u>			<u>\$ 2,695,000</u>	<u>\$ 3,303,000</u>

See accompanying independent auditors' report.

2009 Public Safety Building			
Issued Jun 1, 2008			
Interest			
Rates		Amount	Total
2.80	\$	80,000	\$ 290,000
2.80		80,000	290,000
3.85		85,000	265,000
3.85		85,000	215,000
4.65		85,000	220,000
4.65		90,000	230,000
5.00		95,000	240,000
5.00		95,000	245,000
5.35		100,000	260,000
5.35		100,000	100,000
5.75		105,000	105,000
5.75		110,000	110,000
5.90		115,000	115,000
5.90		120,000	120,000
6.00		125,000	125,000
6.00		125,000	125,000
6.20		130,000	130,000
6.20		140,000	140,000
6.20		145,000	145,000
	\$	2,010,000	\$ 3,470,000

City of Osage

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Seven Years

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Receipts:			
Property tax	\$ 862,795	839,252	816,163
Tax increment financing	546,172	522,457	504,941
Other city tax	373,545	338,849	351,569
Licenses and permits	5,989	4,596	8,414
Use of money and property	107,632	170,001	163,946
Intergovernmental	737,768	1,667,691	636,485
Charges for service	55,769	54,749	61,844
Special assessments	136,036	372,699	77,316
Miscellaneous	<u>337,540</u>	<u>223,881</u>	<u>188,078</u>
Total	<u>\$ 3,163,246</u>	<u>4,194,175</u>	<u>2,808,756</u>
Disbursements:			
Operating:			
Public safety	\$ 541,641	539,751	601,197
Public works	579,328	469,604	508,426
Culture and recreation	426,520	418,306	481,000
Community and economic development	585,756	1,424,797	616,383
General government	246,146	223,844	238,329
Debt service	633,140	453,268	138,241
Capital projects	<u>2,258,179</u>	<u>3,774,284</u>	<u>569,203</u>
Total	<u>\$ 5,270,710</u>	<u>7,303,854</u>	<u>3,152,779</u>

See accompanying independent auditors' report.

Schedule 4

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
986,053	948,134	924,410	929,385
474,680	433,742	400,831	372,459
281,002	245,649	222,034	235,857
6,424	6,245	7,033	7,100
130,831	111,443	61,027	37,216
405,980	432,009	645,194	450,225
62,590	62,099	50,849	61,464
302,380	60,104	198,032	95,373
<u>153,387</u>	<u>182,660</u>	<u>191,797</u>	<u>203,630</u>
<u><u>2,803,327</u></u>	<u><u>2,482,085</u></u>	<u><u>2,701,207</u></u>	<u><u>2,392,709</u></u>
439,691	451,189	414,667	422,064
399,694	351,946	356,906	458,405
422,427	413,221	413,562	380,765
368,506	125,515	100,988	452,292
217,936	257,076	209,121	190,628
539,631	431,218	462,534	1,447,522
<u>285,069</u>	<u>580,557</u>	<u>193,032</u>	<u>404,607</u>
<u><u>2,672,954</u></u>	<u><u>2,610,722</u></u>	<u><u>2,150,810</u></u>	<u><u>3,756,283</u></u>

**City of Osage**

Independent Auditors' Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Osage, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 1, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Osage's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Osage's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Osage's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Osage's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-A-10, II-C-10, II-D-10, and II-E-10 to be material weaknesses.



A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as item II-B-10 to be significant deficiencies

#### Compliance and Other Matters

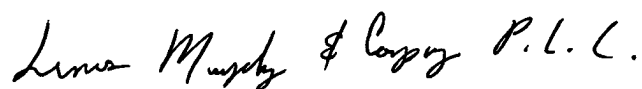
As part of obtaining reasonable assurance about whether the City of Osage's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Osage's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Osage's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Osage and other parties to whom the City of Osage may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Osage during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Lines Murphy & Company, P. L. C.  
Certified Public Accountants  
Osage, Iowa  
October 1, 2010

City of Osage

Schedule of Findings

Year ended June 30, 2010

**Part I: Summary of the Independent Auditors' Results:**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the primary government financial statements.

**City of Osage**

City of Osage  
Schedule of Findings  
Year ended June 30, 2010

**Part II: Findings Related to the Primary Government Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

- II-A-10     Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-10     Library Petty Cash – It was noted that the library does not maintain their petty cash as an impressed balance, further daily monies collected are commingled with the petty cash fund rather than kept separate.

Recommendations – The library should set up an impressed balance petty cash fund to pay for miscellaneous items. They should also set up a separate system to account and track daily sales of items and deposit the collected sales daily.

Response – We will consider this.

Conclusion – Response accepted.

- II-C-10     Fire protection – It was noted that the City does not have adequate fire protection in the form of smoke detectors and/or non-water base fire suppression systems.

Recommendation – The City should place smoke detectors in all appropriate locations.

Response – We will do so.

Conclusion – Response accepted.

II-D-10     Dual Signature – The City has a policy that requires dual signatures on all checks. We noted that not all checks have dual signatures.

Recommendation – The City should use dual signatures on all checks.

Response – Dual signatures will be properly used.

Conclusion – Response accepted.

II –E-10     Signature Cards – It was noted that a former councilperson was still listed as an authorized signer on bank accounts for the City.

Recommendation – The City must update signature cards on a regular basis.

Response – We will do so.

Conclusion – Response accepted.

City of Osage  
Schedule of Findings  
Year ended June 30, 2010

**Part III: Other Findings Related to Statutory Reporting:**

III-A-09 Certified Budget – Disbursements during the year ended June 30, 2010 exceed the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response –In the future the budget will be amended, if applicable.

Conclusion – Response accepted.

III-B-09 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

III-C-09 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-09 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Brian Adams, Council Member, Brother is owner of Adams Plumbing and Heating	Maintenance, parts and labor	\$ 3,715
Cathy Penney, City Clerk, Wife of Mark Penney, contractor	Lawn work	423
Steven Cooper, Mayor, Owner of Coopers Auto	Parts and labor	356
John Michels, Park Board Member	Umpire	96

In accordance with Chapter 362.5(10) of the Code of Iowa, the first amount appears to represent a conflict of interest. The amount is over \$1,500 and bids were not taken. The rest of the transactions do not appear to represent a conflict of interest since the amounts were less than \$1,500.

City of Osage

Schedule of Findings

Year ended June 30, 2010

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will contact legal counsel.

Conclusion – Response accepted.

- III-E-09 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-F-09 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted.
- III-H-09 Revenue Bonds – The City has complied with the revenue bonds resolutions.
- III-I-09 Telecommunications Utility – Osage Municipal Utilities, a component unit of the City, has been audited separately and its financial statements are under a separate cover. The report dated July 12, 2010 indicated that no instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.
- III-J-09 Financial Condition – There were no funds with deficit balances at June 30, 2010.